MANITOBA DEVELOPMENT CORPORATION

Annual Report

March 2006

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Manitoba

MINISTER OF COMPETITIVENESS,
TRAINING AND TRADE

Winnipeg, Manitoba, CANADA
R3C 0V8

His Honour
The Honourable John Harvard
Lieutenant Governor of Manitoba
Room 235 Legislative Building
405 Broadway Avenue
Winnipeg MB R3C 0V8

Your Honour:

I am pleased to present the Annual Report for the Manitoba Development Corporation for the fiscal year ending March 31, 2006.

Respectfully submitted,

Scott Smith
Minister

Manitoba

Competitiveness, Training and Trade
Manitoba Development Corporation
1040 - 259 Portage Avenue
Winnipeg MB R3B 3P4
T 204-945-7626 **F** 204-945-1193

Honourable Scott Smith
Competitiveness, Training and Trade
Room 358 Legislative Building
Winnipeg MB R3C 0V8

Dear Minister Smith:

It is our pleasure to submit the Annual Report of the Manitoba Development Corporation for the fiscal year ended March 31, 2006, as required by Section 44 of the Development Corporation Act.

Respectfully submitted,

Hugh Eliasson
Chairperson

BDO Dunwoody LLP/s.r.l.
Chartered Accountants and Advisors
Comptables agréés et conseillers

700 - 200 Graham Avenue
Winnipeg, Manitoba, Canada R3C 4L5
Telephone/Téléphone: (204) 956-7200
Fax/Télécopieur: (204) 926-7201
Toll Free/Sans frais: 1-800-268-3337
www.bdo.ca

Auditors' Report

To the Shareholder of
MANITOBA DEVELOPMENT CORPORATION

We have audited the balance sheet of **MANITOBA DEVELOPMENT CORPORATION** as at March 31, 2006 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants

Winnipeg, Manitoba
June 9, 2006

Manitoba

Competitiveness, Training and Trade
Manitoba Development Corporation
1040 - 259 Portage Avenue
Winnipeg MB R3B 3P4
T 204-945-7626 **F** 204-945-1193

THE MANITOBA DEVELOPMENT CORPORATION

MANAGEMENT REPORT

The accompanying financial statements are the responsibility of management and have been prepared in conformity with the generally accepted accounting principles. The statements are examined by BDO Dunwoody LLP, Chartered Accountants, whose opinion is included herein.

To fulfill this responsibility, management maintains internal control systems to provide reasonable assurance that the accounts and records accurately reflect all transactions and that appropriate policies and procedures are established and respected.

BDO Dunwoody LLP have free access to the Board of Directors, with and without management present, to discuss the results of their audit and the quality of financial reporting to the Board.

James F. Kilgour, C.A.
General Manager

Kristine Seier, CMA
Secretary-Treasurer

MANITOBA DEVELOPMENT CORPORATION
Balance Sheet

For the year ended March 31

	PNP-B	MDC Part I	MDC Part II	2006 Total	2005 Total
ASSETS					
Current Assets					
Cash	$ 67,882	$ 845,403	$ -	$ 913,285	$ 281,115
Cash held in trust	-	-	155,338	155,338	168,196
Short-term investments	930,290	3,403,359	-	4,333,649	3,311,883
Accounts receivable (Note 2)	281,843	15,126	-	296,969	1,809
	1,280,015	4,263,888	155,338	5,699,241	3,763,003
Assets Managed for the Province of Manitoba					
Loans receivable (Note 3)	-	-	42,686,891	42,686,891	65,640,459
Equity Investments (Note 4)	-	-	4,772,605	4,772,605	4,495,828
Trust Funds (Note 5)	27,260,036	-	-	27,260,036	-
	$ 28,540,051	$ 4,263,888	$ 47,614,834	$ 80,418,773	$ 73,899,290
LIABILITIES					
Current Liabilities					
Accounts payable	$ 131,327	$ 300,330	$ -	$ 431,657	$ 317,842
Funds Provided by the Province of Manitoba	-	-	47,614,834	47,614,834	70,304,483
Trust Liabilities (Note 5)	23,234,761	-	-	23,234,761	-
	23,366,088	300,330	47,614,834	71,281,252	70,622,325
Commitments (Note 8)					
Shareholders' Equity					
Share capital - authorized and issued 100 shares at $10 per share	-	1,000	-	1,000	1,000
Restricted surplus (Note 6)	4,918,648	-	-	4,918,648	-
Retained earnings	255,315	3,962,558	-	4,217,873	3,275,965
	5,173,963	3,963,558	-	9,137,521	3,276,965
	$ 28,540,051	$ 4,263,888	$ 47,614,834	$ 80,418,773	$ 73,899,290

Approved on behalf of the Board:

Director

Director

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION
Statement of Operations and Retained Earnings

For the year ended March 31

	PNP-B	MDC Part I	MDC Part II	2006 Total	2005 Total
Income					
Interest	$ 740,912	$ 144,735	$ 3,190,648	$ 4,076,295	$ 4,826,354
Foreign exchange gain	-	85,431	-	85,431	-
Forfeitures (Note 5)	4,425,275	-	-	4,425,275	-
Recovery of Program Administration Expenses (Note 7)	238,411	-	-	238,411	-
Prepayment penalty fee	-	527,292	-	527,292	-
Recovery (reimbursement) of Part II expenses from (to) the Province of Manitoba					
Allowance for loan forgiveness recovery	-	-	(937,120)	(937,120)	(159,576)
Provision for doubtful accounts (recovery)	-	-	(3,764,798)	(3,764,798)	3,819,393
Provision for decline in value of investments	-	-	131,617	131,617	2,092,687
Pro-rata share of partnership losses	-	-	53,424	53,424	1,238,205
Foreign currency translation loss	-	-	481,500	481,500	1,513,500
	5,404,598	757,458	(844,729)	5,317,327	13,330,563
Expenses					
Program administration	812,493	70,865	-	883,358	56,615
Extraordinary item	-	-	-	-	122,903
Repayment of Part II interest on loan receivable to the Province of Manitoba	-	-	3,190,648	3,190,648	4,730,161
Allowance for loan forgiveness recovery	-	-	(937,120)	(937,120)	(159,576)
Provision for doubtful accounts (recovery)	-	-	(3,764,798)	(3,764,798)	3,819,393
Provision for decline in value of investments	-	-	131,617	131,617	2,092,687
Pro-rata share of partnership losses	-	-	53,424	53,424	1,238,205
Foreign currency translation loss	-	-	481,500	481,500	1,513,500
	812,493	70,865	(844,729)	38,629	13,413,888
Growing through Immigration Strategy Support (Note 9)	56,200	-	-	56,200	-
	868,693	70,865	(844,729)	94,829	13,413,888
Net income (loss) for the year	4,535,905	686,593	-	5,222,498	(83,325)
Retained earnings, beginning of year	-	3,275,965	-	3,275,965	3,359,290
Transfer of Provincial Nominee Program for Business from Manitoba Trade and Investment Corporation (Note 1)	638,058	-	-	638,058	-
Transfer to Restricted Surplus (Note 6)	(4,918,648)	-	-	(4,918,648)	-
Retained earnings, end of year	$ 255,315	$ 3,962,558	$ -	$ 4,217,873	$ 3,275,965

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION
Statement of Cash Flows

For the year ended March 31	2006	2005
Cash Flows from Operating Activities		
Net income for the year	$ 5,222,498	$ (83,325)
Adjustment for		
Allowance for loan forgiveness recovery	(937,120)	(159,576)
Provision for doubtful accounts (recovery)	(3,764,798)	3,819,393
Provision for decline in value of investments	131,617	2,092,687
Pro-rata share of partnership losses	53,424	1,238,205
Provision for forfeitures	(4,025,275)	-
Recovery (reimbursement) of Part II expenses from (to) the Province of Manitoba	4,516,877	(6,990,709)
	1,197,223	(83,325)
Changes in non-cash working capital balances		
Accounts receivable	(295,160)	2,758
Accounts payable	113,815	7,939
	(181,345)	10,697
Net cash flow from operating activities	1,015,878	(72,628)
Cash Flows from Investing Activities		
Loans receivable		
Principal repayments	28,756,560	8,782,057
Loans issued	(1,065,000)	(4,187,544)
Increase in accrued interest receivable	(36,074)	(8,593)
Equity investments		
Investments made	(461,818)	(2,161,470)
Provincial Nominee Program for Business Trust Funds	(27,260,036)	-
	(66,368)	2,424,450
Funds provided by the Province of Manitoba		
Part II	(27,206,526)	(2,361,659)
Provincial Nominee Program for Business	27,898,094	-
Net cash flow from investing activities	625,200	62,791
Net increase (decrease) in cash and cash equivalents	1,641,078	(9,837)
Cash and cash equivalents, beginning of year	3,761,194	3,771,031
Cash and cash equivalents, end of year	$ 5,402,272	$ 3,761,194
Represented by:		
Cash	$ 913,285	$ 281,115
Short-term investments	4,333,649	3,311,883
Cash on hand held in trust	155,338	168,196
	$ 5,402,272	$ 3,761,194

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION
Summary of Significant Accounting Policies

March 31, 2006

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results may differ from those estimates. The significant accounting policies used in these financial statements are as follows:

Loans Receivable Under Part II

Loans are carried at the unpaid principal plus accrued interest, less allowance for doubtful loans. Loans considered uncollectible are written-off.

Interest on loans is recorded as income on an accrual basis except for loans considered impaired. When a loan becomes impaired, recognition of interest ceases when the carrying amount of the loan (including accrued interest) exceeds the estimated realizable amount. The amount of initial impairment and any subsequent changes are recorded through the provision for doubtful loans as an adjustment of the specific allowance.

The allowance for doubtful loans is maintained at a level considered adequate to absorb credit losses existing in the portfolio. Specific allowances reduce the carrying value of loans identified as impaired to their net realizable amounts. In addition to specific allowances against identified impaired loans, the Corporation maintains a non-specific allowance to cover impairment which is inherent in the loan portfolio which is consistent with industry practice.

Equity Investments Under Part II

The Corporation's equity in investments related to share capital investments are recorded at cost. The Corporation's investments in the Vision Capital Fund, CentreStone Vision Fund, Manitoba Capital Fund, Manitoba Science and Technology Fund, Renaissance Capital Fund and Western Life Sciences Venture Fund LLP are accounted for using the equity method of accounting. These investments were originally recorded at cost and the carrying value is adjusted thereafter to include the Corporation's pro-rata share of post acquisition earnings. Such adjustments are correspondingly reflected in the balance sheet caption "Funds provided by the Province of Manitoba under Part II."

An allowance for Equity Investments is maintained at a level considered adequate to absorb the investment risk in the portfolio. Specific allowances reduce the carrying value of individual fund investments to their net realizable amounts at year end.

MANITOBA DEVELOPMENT CORPORATION
Summary of Significant Accounting Policies

March 31, 2006

Financial Instruments

The carrying amounts of short-term financial assets and liabilities are a reasonable estimate of the fair value because of the short-term maturity of those instruments.

The financial risk is the risk to the Corporation's Part I earnings that arise from fluctuations in interest rates and degree of volatility of these rates. Because Part II activities are directed by the Province of Manitoba, any exposure for these financial assets and liabilities to interest rate fluctuations or changes to their fair value would be borne by the Province. Credit risk relating to the realization of assets managed for the Province of Manitoba under Part II is borne by the Province.

All financial instruments are denominated in Canadian dollars.

The Corporation does not participate in derivative financial instrument trading.

Operating Losses

Losses under Part I and under Part II of the Corporation are the responsibility of the Province and are charged directly against advances received from the Province.

Cash

For the purpose of the statement of cash flows, cash includes cash and term deposits with the Province of Manitoba with maturities of up to three months.

Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date. The resulting foreign exchange gains and losses are included in income in the current period.

Contributed Services

During the year, the Province of Manitoba provided office space and other administrative services to the Corporation at no cost. Because of the difficulty of estimating the fair value of such expenses, no contributed services are recognized in the financial statements.

Program Administration and Recoveries

Program administration expenses are recognized in the same period that they are incurred. Recovery of Program Administration Expenses revenue is recognized in the same period as the corresponding expense is incurred.

1. Nature of Operations and Economic Dependence

The Manitoba Development Corporation (The Corporation) provides loans and guarantees under Part I and Part II of the Development Corporation Act. The activities under Part I and Part II are accounted for separately. Part I activities are undertaken at the initiative of the Corporation, while Part II activities are at the direction of the Province of Manitoba.

The Corporation's lending operations under Part I were suspended effective November 15, 1977 except at the direction of the Province of Manitoba. The Corporation's lending and investment operations under Part II continue under the direction of the Province of Manitoba. The Province provides all financing for these initiatives and ultimately bears all costs, including any exposure for these financial assets to interest rate fluctuations, changes to their fair value or credit risk relating to the realization of these assets.

On March 15, 2005, the Province of Manitoba authorized the transfer of financial administration of the Provincial Nominee Program for Business from the Manitoba Trade and Investment Corporation (MTIC) to the Corporation effective April 1, 2005. Related assets of $23,033,926, liabilities of $22,395,868 and retained earnings of $638,058 were transferred on that date. The Manitoba Provincial Nominee Program for Business allows Manitoba to recruit, select, and nominate qualified business people from around the world who have the intent and ability to move to Manitoba and establish or purchase a business.

2. Accounts Receivable

	2006	2005
Province of Manitoba	$ 111,105	$ 1,809
Other	16,199	-
Accrued Interest	169,665	-
	$ 296,969	$ 1,809

3. Loans Receivable Managed for the Province of Manitoba Under Part II

	2006	2005
Business Support		
Manitoba Industrial Opportunities Program		
- Repayable	**$ 55,862,840**	$ 82,567,662
- Forgivable	**3,792,063**	4,729,183
Manufacturing Adaptation Program	**2,491**	2,529
	59,657,394	87,299,374
Other Loans Receivable		
Manitoba Film and Sound	**-**	13,584
Elmwood Cemetery	**75,000**	75,000
	75,000	88,584
	59,732,394	87,387,958
Less: Allowance for forgiveness	**(3,792,063)**	(4,729,183)
Allowance for doubtful accounts	**(13,253,440)**	(17,018,316)
	(17,045,503)	(21,747,499)
	$ 42,686,891	$ 65,640,459

3. **Loans Receivable Managed for the Province of Manitoba Under Part II** (Continued)

The Manitoba Industrial Opportunities Program provides flexible repayable financing to encourage companies to expand or locate in Manitoba. Loan principal is due as follows:

	2006	2005
2006	$ -	$ 6,109,426
2007	7,730,760	6,432,644
2008	20,766,512	21,040,733
2009	4,788,148	5,114,898
2010	3,086,515	2,981,727
Subsequent to 2010	-	40,705,848
2011	6,459,966	-
Subsequent to 2011	12,812,479	-
Accrued interest	218,460	182,386
	55,862,840	82,567,662
Allowance	(13,250,950)	(17,015,787)
	$ 42,611,890	$ 65,551,875

Interest rates charged for Manitoba Industrial Opportunities loans are fixed in reference to the Corporation's cost of borrowing from the Province of Manitoba at the time of the first disbursement of the loan proceeds to the debtor. In some cases, per the terms of individual loan agreements, interest rates may be adjusted during the term of the loan based on the Corporation's cost of borrowing from the Province of Manitoba at a date(s) specified in the loan agreement. In certain cases, the Corporation charges interest rates which are less than its cost of borrowing to encourage investment and job creation in Manitoba. In other cases, the Corporation charges rates in excess of its cost of borrowing to reflect risk conditions. Interest rates charged on loans are as follows:

	2006	2005
Nil	$ 1,622,671	$ 1,660,619
Greater than Nil, less than 5%	30,913,727	30,171,231
5% or greater, less than 6%	17,804,552	24,717,471
6% or greater, less than 7%	2,782,597	21,401,797
7% or greater, less than 8%	2,520,833	4,309,158
9% or greater, less than 10%	-	125,000
Accrued interest	218,460	182,386
	55,862,840	82,567,662
Allowance	(13,250,950)	(17,015,787)
	$ 42,611,890	$ 65,551,875

When possible, the Corporation obtains various forms of security on the Manitoba Industrial Opportunities loans with priority ranking subject to any prior existing charges.

3. Loans Receivable Managed for the Province of Manitoba Under Part II (Continued)

In exchange for contractual obligations which normally commit debtor companies to create and maintain jobs, the Corporation has provided forgivable loans. A portion of these loans is normally forgiven annually subject to the Corporation's confirmation that jobs have been created and maintained. Forgivable loans together with projected timing of forgiveness are as follows:

	2006	2005
Forgivable within 1 year	**$ 1,140,287**	$ 1,137,267
Forgivable within 2 years	**940,140**	940,140
Forgivable within 3 years	**-**	940,140
Forgivable in more than 3 years	**1,711,636**	1,711,636
	$ 3,792,063	$ 4,729,183

4. Equity Investments Managed for the Province of Manitoba Under Part II

	2006	2005
Share capital investments		
Faneuil ISG Inc.	**$ 1**	$ 1
Less: Allowance for forgiveness of shares	**1**	1
	-	-
Limited Partnership Investments		
CentreStone Vision Fund	**801,584**	399,000
Vision Capital Fund	**1**	1
Manitoba Capital Fund	**4,363,200**	4,363,200
Manitoba Science and Technology Fund	**1,682,773**	1,623,539
Renaissance Capital Fund	**3,000,000**	3,000,000
Western Life Sciences Venture Fund LLP	**3,800,000**	3,800,000
	13,647,558	13,185,740
Less: Allowance for decline in value of investments	**(9,356,266)**	(9,224,649)
Add: Pro-rata share of partnership earnings	**481,313**	534,737
	(8,874,953)	(8,689,912)
	$ 4,772,605	$ 4,495,828

4. Equity Investments Managed for the Province of Manitoba Under Part II (Continued)

On January 17, 2002, Faneuil ISG Inc. was purchased by 3863620 Canada Limited. As a result of this transaction, the Province agreed to convert its existing investment into 11,000,000 preference shares of 3863620 Canada Limited. On December 30, 2004 the rights pertaining to these shares were changed. The new rights attached to these shares are non-retractable, non-voting with no dividend rights and on the liquidation, winding up or dissolution of Faneuil the Province will participate in the assets of Faneuil pari-passu with the holders of Class A common and Class B common shares.

The investment in preference shares has been recorded in the books of the Corporation at a nominal value of $1. Any funds received upon redemption of the preference shares will accordingly result in the recognition of an equal amount of income at that time.

5. Trust Funds / Liabilities - Provincial Nominee Program for Business

	2006	2005
Gross Trust Liabilities	$ 27,260,036	$ -
Allowance for forfeitures	(4,025,275)	-
	$ 23,234,761	$ -

The Corporation and the Manitoba Departments of Industry, Economic Development and Mines and Labour and Immigration operate a program known as the Provincial Nominee Program for Business, which offers individuals who wish to immigrate to the Province of Manitoba to establish and operate a business the opportunity to obtain a nominee certificate. During the 2003 fiscal year, the Corporation first entered into agreements with qualified immigrants whereby the immigrants committed to invest specified amounts to establish approved businesses in Manitoba within specified periods of time. As evidence of their commitments, the immigrants are required to deposit $75,000 with the Corporation. These deposits are held in trust by the Corporation and are refundable to the immigrants based on the satisfaction of the conditions set out in the agreements. The final decision as to admission to Canada for permanent residence is made by the Government of Canada. In the event that the nominees are not granted permanent residency visas by the Government of Canada, the Corporation also refunds the deposits. The Corporation invests the deposits, retains all interest income earned on the deposits and, should immigrants fail to satisfy the conditions of the agreements, the Corporation also has the right, under the agreements, to retain the deposits.

At March 31, 2006, deposits held in trust under the Provincial Nominee Program for Business and invested with the Province of Manitoba totaled $27,260,036 (2005 - $22,335,907). Interest earned on these deposits during the year and retained by the Corporation totaled $740,912 (2005 - $455,670). Actual deposits retained during the year and included in total Forfeitures revenue amounted $400,000 (2005 - $300,000).

6. Restricted Surplus

The Province of Manitoba has directed that the balance of unrestricted retained earnings for the year to be equal to 50% of the Provincial Nominee Program for Business net income for the year after adjusting for the non-cash item – provision for forfeitures. All amounts in excess of this balance are retained as restricted surplus until such time as an amount has accumulated equaling the Provincial Nominee Program for Business operating expenses for the current and previous fiscal years. Any excess beyond that amount, once it has been released by the Province would then be transferred to unrestricted retained earnings. The provision for forfeitures, which represents a non-cash item, has been included in the restricted surplus.

7. Recovery of Program Administration Expenses and Related Party Transactions

The Corporation receives recoveries for certain Program Administration Expenses, paid for by the Provincial Nominee Program for Business, from the following three sources.

Program Participants	$ 62,597
Departmental appropriations - Industry, Economic Development and Mines	107,167
Manitoba Opportunities Fund Ltd.	68,647
	238,411

The Manitoba Opportunities Fund Ltd. also provided a recovery of $25,231 to cover salary and occupancy costs related to a Corporation employee who worked exclusively on Manitoba Opportunities Fund Ltd. matters (this recovery has been netted against Program Administration Expenses). The Manitoba Opportunities Fund Ltd. operates under the control of a common Board of Directors.

8. Commitments

Commitments and undisbursed balances of approved loans under Part II:

	2006	2005
Manitoba Industrial Opportunities Program	**$ 20,969,984**	$ 13,587,568
Manitoba Science & Technology Fund	**817,227**	876,461
CentreStone Venture Fund Limited	**4,198,416**	4,601,000
Manitoba Capital Fund	**353,334**	353,334
Western Life Sciences Venture Fund LLP	**1,200,000**	1,200,000
	$ 27,538,961	$ 20,618,363

9. Growing Through Immigration Strategy Support

Funds transferred to support the Growing Through Immigration Strategy are made up of the following, as approved by the Treasury Board:

	2006
Transfer to the Department of Industry, Economic Development and Mines	$ 10,000
Transfers to the Department of Labour and Immigration	46,200
	$ 56,200

10. Financial Instruments

The carrying amounts of PNP-B and Part I financial assets and liabilities are a reasonable estimate of the fair value because of the short-term maturity of those instruments. The carrying amount of Part II financial assets and liabilities approximate their fair value. In the absence of readily ascertainable market values, management has estimated that fair value would not differ materially from carrying value. Factors considered in this determination include underlying collateral, market conditions, financial data and projections of the borrowers. Because of the inherent uncertainty of valuation, the estimate of fair value may differ significantly from the values that would have been used had a ready market for the assets existed.

11. Comparative Figures

Certain of the comparative figures have been reclassified to provide better comparison with the current year's presentation. Net income for the year ended March 31, 2005 remains as previously reported.